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INDUSTRIAL DEVELOPMENT FUND AND OTHER VOLUNTARY CONTRIBUTIONS

Report by the Director-General

Summary

Reviews the current resource mobilization pattern of the Industrial Development Fund and describes the programming thrust for 1998 and 1999. Presents innovative modalities for resource mobilization to increase resources available for the implementation of priority programmes.

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Abbreviations

ASEAN	Association of South-East Asian Nations
CFC	Common Fund for Commodities
IDF	Industrial Development Fund
LDC	least developed country
MERCOSUR	Common Market of the Southern Cone
OECD	Organization for Economic Cooperation and Development
UNDP	United Nations Development Programme

Introduction

1. In view of the limited resources available in the regular budget for technical cooperation activities, extrabudgetary funding for UNIDO projects is essential to enable the Organization to deliver priority services to Member States. The Industrial Development Fund (IDF) is the central mechanism for such funding. In addition, projects may be funded through individual trust funds from a variety of donors.

I. OVERVIEW OF 1996

2. The present report provides information on the volume of funding mobilized through IDF as well as through the trust fund mechanisms in 1996, broken down by thematic priority and region. The report also describes new approaches to mobilizing resources both from existing donors as well as from new funding partners, as well as the approach for programming the resources.

3. In 1996, UNIDO mobilized more funds for technical cooperation activities than in any year since 1990. Net approvals, i.e. the total volume of new projects and net project revisions, amounted to $117.8 million,[1] a 27 per cent increase over the amount of $92.3 million in 1995, and a 37 per cent increase over the sum of $86.2 million in 1994. All main groups of external funds, i.e. IDF (excluding Montreal Protocol), Montreal Protocol, trust funds and the United Nations Development Programme (UNDP) showed increases over 1995.

4. The distribution of IDF project approvals is given in the *Annual Report of UNIDO 1996* (IDB.17/10/Add.1-PBC.13/10/Add.1, appendix C, table 2). Both the geographical and the thematic distribution of projects is a reflection of donor selection, as virtually all the external funds are special purpose in nature.

5. The high-impact programmes, prepared as part of the reform in late 1995, led to considerable new approvals. An example thereof is the programme for application of quality principles to the food-processing sector in seven sub-Saharan African countries, which attracted $2.3 million from Germany. Preparatory work to extend the programme to other least developed countries (LDCs) and low-income countries was also financed by Germany. Japan, the Republic of Korea, Sweden and UNDP contributed to the Viet Nam part of integrated advisory services for industrial policy formulation and competitiveness strategies, for a total of more than $1 million. Austria and Japan contributed to the programme on new technologies for abatement of global mercury pollution, including the first country-level application in the United Republic of Tanzania. For the high-impact programme on the development of entrepreneurship for women, Belgium funded the country project for Mali to a value of more than $1 million as well as preparatory assistance for Côte d'Ivoire and Senegal, while Germany funded the "needs assessment" for Zimbabwe. In the context of the high-impact programme for the promotion of competitive and innovative small- and medium-scale enterprises, Italy provided over $3 million of funding for a joint programme.

6. Following the resolution of all legal and financial issues, the agreement for the first UNIDO-executed project financed by the Common Fund for Commodities (CFC) was signed in December 1996 with CFC funding of $2.6 million. The project (for product and market development for sisal and henequen, with Kenya and the United Republic of Tanzania as partners) became operational early in 1997. This project is not included in the approval statistics for 1996, as funds were transferred only in January 1997. In March 1997 the second

[1] Excludes the final adjustments related to the completion of UNIDO's extensive involvement in the establishment of the International Centre for Genetic Engineering, which became fully independent at the end of 1995.

CFC-financed project was approved involving the Philippines and Ecuador in a project to develop the processing and application of abaca fibres.

II. PROGRAMMING THRUST FOR 1998-1999

7. For the next biennium, priority will be given to programmes and projects in the areas identified in the business plan on the future role and functions of UNIDO (IDB.17/Dec.2) as adopted at the seventeenth session of the Board for approval by the General Conference. The focus will thus be on the strengthening of industrial capacities and on cleaner and sustainable industrial development, with special emphasis on services for Africa and LDCs, services in support of agro-based industries and small and medium enterprises, and their integration into national industrial structures.

8. Under the project cycle approach introduced during the reform, UNIDO is developing for each priority area a consistent approach and a critical mass of expertise, adjusted for the demand actually materializing for each priority. This is expected to improve the impact of UNIDO activities as well as facilitate funds mobilization, and could eventually enable donors to provide funds for specified thematic priorities that can then be programmed by UNIDO.

9. The programme development activities foreseen under the new approach for a limited number of high-priority, large-scale programmes and projects will enable early contact with potential donors. Such donors may be invited to contribute to or participate in the development of the programme or of its components, either through their headquarters or their local missions. Funds mobilization efforts will be fully integrated in the programme or project development work, and not undertaken only when a programme or project is fully designed, as in the past.

10. Extensive problem analysis—featuring enhanced consultation with beneficiaries, government officials and other relevant parties as well as with other United Nations agencies—and effective teamwork within the Organization are expected to lead to better documented and formulated, high-quality proposals, more responsive to real needs. This should also facilitate the mobilization of funds from a variety of donors. It is anticipated that in larger programmes, other United Nations organizations with complementary mandates will carry out the parts corresponding to their special expertise.

11. To facilitate programme development activities, the general-purpose convertible segment of IDF is being reserved largely for the funding of preparatory phases and other "seed money" activities. It is clear that sufficient funds are essential to enable the Organization to respond to requests for these high-priority programmes.

12. The programme approach, to some extent modelled after the leather programme in Africa, is expected to lead in a number of cases to very large programmes. In most cases these will need to be multi-donor funded. However, to facilitate management as well as funding, programmes will be presented as a set of projects within an overall management structure supported by the central project. Individual components (projects) can be funded by different donors, and in some cases even implemented bilaterally. The approach is expected to lead to new forms of donor cooperation on the basis of agreed programmes developed by UNIDO in cooperation with the recipient countries concerned.

13. IDF should be the main source of funding for core parts of the new-style larger programmes. Such parts will frequently address sensitive issues of a policy nature. Funding from, as well as execution by, a United Nations organization is often the most acceptable option. Such central funding is also essential to attract financing from other sources such as UNDP, bilateral sources and third party and self-financed trust funds. Within such larger programmes it is expected that the Organization will be able to attract financing from new types of funds and will be better able to use existing systems for providing inputs in kind as explained in the next chapter.

III. INNOVATIVE MODALITIES OF FUNDS MOBILIZATION

14. The Secretariat is actively working with existing regular donors to increase the level of their contribution. However, attempts are being made increasingly to address other ministries in donor countries that may be interested in specific activities of UNIDO—for example ministries responsible for the environment, trade or economic affairs. Whereas regular contributions from ministries responsible for development cooperation are normally channelled through the Industrial Development Fund, such additional contributions are normally channelled through trust fund mechanisms.

15. Renewed efforts are under way to approach OECD countries that, for various reasons, have not contributed to IDF in recent years. These countries will be approached for specific programmes or projects in which they are expected to be interested. For instance, European countries may be interested in contributing to projects and programmes supporting the development of industries in North African countries.

16. The more developed of the developing countries are being approached with a view to increasing their funding of UNIDO activities. Contributions can be made along the lines of, for instance, the long-standing contributions of India to both the essential general-purpose convertible segment as well as the special-purpose

segment of IDF. Such contributions from developing countries are very important in support of South-South cooperation, or regional or subregional cooperation where more industrialized developing countries assist their less developed neighbours (e.g. in the case of ASEAN or MERCOSUR). The effective promotion of South-South cooperation is also facilitated by the change from small projects to large, multi-funded programmes, where specific components could be provided for by the more developed of the developing countries.

17. Given a trend followed by several major donors to channel bilaterally most aid resources, UNIDO is further increasing contacts with local embassies of major donors in developing countries. It is expected that, in an increasing number of cases, bilateral funds may be used for UNIDO-developed activities. Several large projects to be funded from bilateral sources are being negotiated and are expected to be signed in the course of 1997. First indications are that this may become a major source of funds in areas where UNIDO can demonstrate its strength and where its unique position is important. This is certainly the case in policy advisory components of large programmes. It is, however, essential that active and full support be given by Governments and other parties involved in the projects, as this is a precondition for access to bilateral funds. Funds mobilization for programmes and projects is increasingly a responsibility to be shared between UNIDO and national counterparts. This is certainly also valid for access to UNDP funds as well as such special-purpose funds as the Global Environment Fund and CFC.

18. It is expected that in the 1998-1999 biennium the work with CFC will lead to further approvals. In view of the close relation between the CFC mandate (increasing the contribution that commodities make to the economies of developing countries) and the UNIDO focus on agro-based industrial development, cooperation between CFC and UNIDO is expected to expand further. Projects in the pipeline (currently with a value of over $10 million) will basically operate under similar agreements as the first one concluded (see para. 6 above), and are therefore expected to become operational faster after their approval by CFC.

19. In the 1998-1999 biennium UNIDO will expand its attempts to mobilize additional resources "in kind" for the benefit of Member States. For instance, there are a number of schemes operated by various countries under which retired senior experts are made available for short periods to projects usually at a cost of only travel and per diem. An agreement was signed in 1996 with the Italian organization "Seniors for Development", and negotiations are under way on similar schemes with other countries, including one covering environment-related activities. While in the past it has proven difficult to fit such resources into individual projects, it is expected that large programmes will make considerable use of these facilities and further agreements will be pursued. In all cases such experts will be used only at the initiative of, and where selected by, UNIDO.

20. Initial efforts are being made to conclude agreements for selected projects, whereby suitable private sector companies will be invited to sponsor projects. Sponsorship may include trust fund financing or contributions in kind, either for the complete project, or as cost-sharing with other sources of funds. For this type of funding it is expected that components of larger programmes will be more attractive than stand-alone projects. In this context, specific funds mobilization opportunities will be pursued during future meetings of the International Business Advisory Council, which was established in October 1996 to strengthen links with the private sector (*Annual Report of UNIDO 1966*, IDB.17/10-PBC.13/10, chap. IV.G, para. 61).

21. A further new approach is the listing on the UNIDO Internet home page (http://www.unido.org) of projects for which no donor has been identified following clearance by the Programme and Project Review Committee. For selected projects, non-traditional potential donors including the private sector are now being approached individually, partly also through the Internet.

IV. ACTION REQUIRED OF THE COMMITTEE

22. The Committee may wish to consider recommending to the Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the information contained in document IDB.18/9-PBC.13/7;

"(b) Decides to delegate to the Director-General the authority to approve projects for financing under the Industrial Development Fund in 1998 and 1999, in accordance with the information contained in chapter II of document IDB.18/9-PBC.13/7;

"(c) Encourages Member States to increase their pledges to the Fund and to make available funding for high-priority UNIDO projects from both multi- and bilateral funds;

"(d) Encourages Governments of recipient countries to take a more active role in sharing with UNIDO the responsibility to mobilize funds for high-priority UNIDO projects from sources available to them."